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Research Article

A STUDY OF INVESTOR BEHAVIOR ON INVESTMENT AVENUES IN COIMBATORE

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ABSTRACT

This is a project about the study of the analysis is to determine the investment behavior of investors and investment preferences for the same. The kind of volatility we witnessed in the asset class (Equity markets) in recent times is unprecedented. It is true with other asset classes like Gold, Currencies, and Bonds as well. This leaves the investor baffled at times. If we get into further details, it can be finding that the continuous volatility is affecting investor behavior in a big way. Therefore, one has to get into an investor's mind and experience the upheavals going on there. In earlier times investor had the option of investing in Bank Deposits, Government Bonds, Post Office schemes like NSC, Indira Vikas Patra, Kisan Vikas Patra and Monthly Income Schemes. If he wanted exposure in real estate, he was buying land primarily. He bought gold mainly for his personal use on occasions like festival, marriage and never seriously thought of it as an asset class. The purpose of the analysis is to determine the investment behavior of investors and investment preferences for the same. Investor's perception will provide a way to accurately measure how the investors think about the products and services provided by the company. Today's trying economic conditions have forced difficult decision for companies. Most are making conservative decisions that reflect a survival mode in the business operation. During these difficult times, understanding what investors on an ongoing basis is critical for survival. Executives need a third party understanding on where investor's loyalties stand.

INTRODUCTION

The main purpose of investors engaged in investment is to both maximize their income and minimize their expenses. In the literature of finance, individuals are considered to behave rationally when pursuing their own benefits. In this context, individuals spare some of their income for expenditure and some for saving. Within this framework, individuals route their savings into investment. Probability of profit and loss in the investment process makes decision-making difficult for individuals. In this scope, the rational use of savings is determined by how quickly and efficiently information about investment reaches the investor, the income the individual will get and the level of risk. Likewise, proper pricing cannot be realized on the occasions that the information accuracy in the markets is not reflected to the investors completely and transparently.

A large body of empirical research indicates that real individual investors behave differently from investors in these models. Most individual investors hold under diversified portfolios. Many apparently uninformed investors trade actively, speculatively, and to their detriment. And, as a group, individual investors make systematic, not random, buying and selling decisions. Transaction costs are an unambiguous drag on the returns earned by individual investors. More surprisingly, many studies document that individual investors earn poor returns even before costs. Put another way, many individual investors seem to have a desire to trade actively coupled with perverse security selection ability!

In today's scenario there has been a major change i.e. economic prosperity all over. The entire world is talking about the robust growth rates in this part of the world. Higher income levels and booming stock markets have led to more and more numbers of high net worth investors (HNIs). This means the availability of huge investible surplus. The investors with higher risk appetite want to experiment and try new and exotic products in the name of diversification. This has resulted in emergence of new options within the same or fresh asset classes. There are more products available within each asset class be it Equity, Mutual Fund, Gold, Real Estate. The common perception of investors is to buy when the market supports in uptrend and not to invest in the falling time. They wait for the stabilization in the market;

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so in this research, we would like to draw a clear picture on the trends of traders and investors. Markets have personalities because investors have emotions. Markets are ultimately driven by people and stock prices are what individuals make them out to be. People have a tendency to see their own actions and decisions as totally rational, when the truth is they may not be.

Key points on investor behaviors

- Investments are often thought of as pieces of paper rather than part ownership of a company.
- Investors are often impatient to sell a good stock.
- Investors often make a distinction between money easily made from investments, savings or tax refunds and hard-earned money - found money is more readily spent or wasted.
- People tend to think in extremes - the highly probable news is considered certain, while the improbable is considered impossible.
- Investors often take a short-term viewpoint. Recent market losses lead to suspicion and caution, while recent gains lead to action.
- Investors may overestimate their skills; attributing success to ability they don't possess and seeing order in information or data where it doesn't exist.
- Investors follow the crowd, and are heavily influenced by other investors or compelling news; they fail to check out the real facts.
- Investors become obsessed with prices and trend-watching, rather than solid information.

Taken as a whole, these psychologies really have only one effect, that is - a financial decision is taken that lacks accuracy. And these errors are strongest when uncertainty, inexperience, attitudes and market pressures come together to undermine decision-making ability. Each person has his own personal psychology and response style. There are three elements that comprise the essence of success theory:

- The way in which, we as investors deal with loss and failure is just as important, if not more important, than the way in which we deal with success.
- Effectively controlling and channeling emotions are two very important issues in the equation for success.
- Those successful continue to be successful as investors, recognize the importance of market psychology and incorporate it in their work to a certain extent.

Success will tend to take care of itself, if one provides the proper psychological and behavioral background for it to occur. Goals are wonderful, without them we would be lost. Yet, the road to success must be paved with behavior, attitude, opinions and visualization. To be successful as an investor, one needs to develop and maintain similar attitudes, behaviors and opinions. The main objective of the study was to find out the need of the current and future investors and to study on investors behavior. The purpose of the analysis is to determine the investment behavior of investors and investment preferences for the same. Investor's perception will provide a way to accurately measure how the investors think about the products and services provided by the company. Today's trying economic conditions have forced difficult decision for companies. Most are making conservative decisions that reflect a survival mode in the business operation. During these difficult times, understanding what investors on an ongoing basis is critical for survival. Executives need a third party understanding on where investor's loyalties stand.

The objective of the study is briefly discussed below

1. To understand in depth about different investment avenues available in market.
2. To understand the pattern of the investors at the time of investing.
3. To find out the factors that investors consider before investment.

This study will help in gaining a better understanding of what an investors look for in an investment option. The study could also be used by the financial sector in designing better financial instrument customized to suit the need of the investors.

LITERATURE REVIEW

Many Organizations and individuals conducted several studies on the various aspects of the capital markets in the past. These studies were mainly related to various instruments of capital market, shareholding pattern, new issue market and scope, market efficiency, risk and return, performance and regulation of mutual funds. However, not much of research was done on investment patterns and investor's perceptions. Hence an attempt is made to review some of the studies relevant to the topic in order to get into in depth details of the chosen study. Jaakko (2011) study revealed that most investors had affected based extra motivation to invest in stock, over and beyond financial return expectations. Zaghlami (2009) study revealed that some psychological particularities that are not expected by the financial behavioral literature, the study was conducted on Tunisian investors. Mahendra (2008) study stated that irrational investment decision making is a widespread phenomenon. They study the perils of irrational decision-making in investments choice which finally can lead to great risk. Verma, (2008) identified the demographic profile and investor personality can be the two determinants for making perception about the investor psychology, which if scientifically studied could help the Wealth Management professionals to advice their clients better. Commins (2009) in their article discussed the hedonistic psychology of investors. It cites that the pursuit of happiness becomes hedonistic when people want to get the most of their investment and gaining wealth is no longer confining that one becomes overly materialistic.

The study conducted by SCMRD for Ministry of Company affairs (2004) found that majority of the retail investors do not regard mutual fund equity schemes as a superior investment compared to direct equity. Kent (19998) developed a theory of securities market under- and overreactions based on two well-known psychological biases: investor overconfidence about the precision of private information; and biased self-attribution, which causes asymmetric shifts in investors' confidence as a function of their investment outcomes. SEBI (1998) survey revealed that Risk appetite, investment objective of the investor, income of the investor, funds available for investment, greatly influences the behavior of the investor in corporate securities at various levels.

The Institute of company secretaries of India in its Investor Education series III entitled, "Investment Decision making by a Lay Investor' (1991) explained the preconditions for investment decision making, analysis and evaluating risks.

Research Design

A research design must contain the clear statement of the research problem, procedures and techniques for gathering information, the population to be studied and the methods used in processing and analyzing data (Kothari, 1999).

The research used in this study is Exploratory Research. Exploratory research provides insights into and comprehension of an issue or situation. It should draw definitive conclusions only with extreme caution. Exploratory research is a type of research conducted because a problem has not been clearly defined. Exploratory research helps determine the best research design, data collection method and selection of subjects. Given its fundamental nature, exploratory research often concludes that a perceived problem does not actually exist.

Design of Questionnaire

A questionnaire is a reformulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives. Biases in research can be minimized if a questionnaire focuses on three areas: the wording of questions, general appearance of questionnaire and planning of issues of how the variables will be categorized, scaled and coded after receipt of the responses. It is important to conduct a thorough measurement analysis on survey instrument, which is used for research. Measurement analysis provides the audience with assurance that the findings reflect accurate measures and the results are believable.

Questionnaires are an efficient data collection mechanism when the researcher knows exactly what is required and how to measure the variables of interest (Sekaran, 2007). A questionnaire is a reformulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives. Biases in research can be minimized if a questionnaire focuses on three areas: the wording of questions, general appearance of questionnaire and planning of issues of how the variables will be categorized, scaled and coded after receipt of the responses. It is important to conduct a thorough measurement analysis on survey instrument, which is used for research. Measurement analysis provides the audience with assurance that the findings reflect accurate measures and the results are believable.

Relevance

To be successful, questionnaire should be short and simple (Kothari, 1999). Questions should proceed in a logical sequence moving from easy to more difficult ones. Technical terms and expression with numerous interpretations should be avoided. Reliable and valid instrument provides practitioners with a tool for self-assessment and continuous improvement.

Questionnaire approval

The purpose of Questionnaire approvals:

1. To establish the most appropriate questions.
2. To check whether the questions asked in the questionnaire are easy to understand
3. To ascertain the effectiveness of the measuring instrument.

Sampling Design

A sampling frame is closely related to the population. A sample is a part of population, which is selected for obtaining the necessary information.

Methods are classified as either probability or non-probability. In probability samples, each member of the population has a known non-zero probability of being selected. Probability methods include random sampling, systematic sampling, and stratified sampling. In non-probability sampling, members are selected from the population in some non-random manner. These include convenience sampling, judgment sampling, quota sampling, and snowball sampling. The advantage of probability sampling is that sampling error can be calculated. Sampling error is the degree to which a sample might differ from the population. When inferring to the population, results are reported plus or minus the sampling error. In non-probability sampling, the degree to which the sample differs from the population remains unknown.

The sample size for this research was 100 investors

Collection of Data

Data Collection helps the team to assess the health of the process. To do so, one must identify the key quality characteristics one will measure. Data Collection enables a team to formulate and test working assumptions about a process and develop information that will lead to the improvement of the key quality characteristics of the product or service. Data Collection improves the decision-making by helping oneself focus on objective information about what is happening in the process, rather than subjective opinions. Data collection has been done through Primary Data, which was done by personal Interviews with the investors.

Analysis of Data

Analysis of data is a process of inspecting, cleaning, transforming, and modeling data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making. Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, in different business, science, and social science domains.

Reliability Analysis

The concept of reliability has been used to cover several aspects of score consistency. Test reliability indicates the extent to which individual differences in test scores are attributable to "true" differences in the characteristics under consideration and the extent to which they are attributable to chance errors. These errors cannot be avoided or corrected through improved methodology.

Reliability Coefficients of investor's behavior towards investment and its factors was found to be 0 .8723

Assessment of the Degree of Association of Factors

In order to test the association of Engagement and its factors a detailed set of statistical analysis was conducted first being a confirmatory Pearson's Correlation as seen in below Table.

Table 1 Descriptive Statistics

Parameter	No. of investors	Percentage
Gender		
Male	76	76%
Female	24	24%
Total	100	100%
Age Group		
Below 30	18	18%
30-50	68	68%
Above 50	14	14%
Total	100	100%
Qualification		
Under Graduates	16	16%
Graduates	53	53%
Post Graduates	31	31%
Others	0	0%
Total	100	100%
Marital Status		
Single	12	12%
Married	88	88%
Divorced	0	0%
Widowed	0	0%
Total	100	100%
Occupation		
Student	4	4%
Retired	13	13%
Self-employed	79	79%
un-employed	4	4%
Total	100	100%
Annual Income		
Below 0.5L	7	7%
0.5L-1L	2	2%
1L-3L	36	36%
Above 3L	55	55%
Total	100	100%
Experience in Investment		
Below 2yrs	9	9%
2yrs-5yrs	25	25%
5yrs-10yrs	31	31%
10yrs-15yrs	21	21%
Above 15yrs	14	14%
Total	100	100%
Frequency		
Daily	35	35%
Monthly	31	31%
Quarterly	15	15%
Bi-Annually	10	10%
Annually	9	9%
Total	100	100%
Investing Area		
Equity and stock	3260	32.60%
Debt Market	450	4.50%
mutual Funds	955	9.55%
Insurance	1195	11.95%
Real Estate	755	7.55%
Commodities	575	5.75%
Bank Fixed Deposits	1320	13.20%
Post Office MIS	1490	14.90%
Total	10000	100%
Sources of Investment		
Savings	5220	52.20%
Inherited Amount	2150	21.50%
Margin Financing	100	1.00%
Money Extracted from Business	2005	20.05%
Personal Borrowing	525	5.25%
Total	10000	100%
Objectives of the Investment		
Short Term Profit Seeking	2550	25.50%
Steady Income(Dividends)	3225	32.25%
Long Term Profit Seeking	4225	42.25%
Others	0	0%
Total	10000	100%
Perception For the Losses		
Incorrect Recommendation or Advice from broker/analyst/banker	21	21%
Incorrect Recommendation or Advice from family/friends	13	13%
The market has, in general, performed poorly	46	46%
Committed errors	13	13%
Sheer bad luck	7	7%
Total	100	100%
Perception For the Profits		
Professional help	24	24%
Friends advice and support	11	11%
Bullish market	47	47%
Own knowledge	13	13%
Sheer good luck	5	5%
Total	100	100%

Table 2 Correlations of Factors Towards Investor's Behavior

	Investor's optimism	Investors effort	Risk appetite	Investor's Behavior
Ability of inv decision	.403(**)	.486(**)	.201(*)	.732(**)
Investors optimism		.454(**)	.267(**)	.809(**)
Investors effort			.202(*)	.606(**)
Risk appetite				.533(**)

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

There is a range of correlation coefficients between the factors as described below:

- The degree of relation between ability of investment decision and investor's behavior is 0.486 which is moderate.
- The degree of relation between investor's optimism and investor's behavior is 0.454 which is also moderate.
- The degree of relation between investor's effort and investor's behavior is 0.486 which comparatively moderate levels.
- The degree of relation between risk appetite and investor's behavior is 0.267 which is comparatively lower.

Test of Regression

Regression is the determination of a statistical relationship between two or more variables. In simple regression, there are only two variables; one variable (defined as independent) is the cause of the behavior of another one (defined as dependent variable). Regression interprets what exists physically i.e. there must be a physical way in which independent variable can affect dependent variable.

As the objective of this study is to identify and assess the effect of components on Investor's behavior, the method of multiple regression analysis has been chosen, as it helps in assessing the individual and the combined effect of independent variables (ability of investment decision, investor's optimism, investor's effort, risk appetite) on the dependent variable (investor's behavior).

Table 3 Regression Analysis of Investor's Behavior and Its Factors

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.970(a)	.941	.939	4.155

a Predictors: (Constant), Ability of investment decision., Risk appetite, Investors optimism, Investors effort.
R^2 = 0.939, that's mean regression is 93.90% of the variance.

Table 4 F Table Analysis of Investor's Behavior and Its Factors

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	26241.992	4	6560.498	379.983	.000(a)
	Residual	1640.198	95	17.265		
	Total	27882.190	99			

a Predictors: (Constant), Ability of investment decision., Risk appetite, Investors optimism, Investors effort.
b Dependent Variable: Investor's Behavior.

Table 5 Coefficients analysis of investor's behavior and its Factors

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.219	2.201		.100	.921
	Investors optimism	1.155	.066	.514	17.606	.000
	Investors effort	.649	.171	.114	3.789	.000
	Risk appetite	1.083	.097	.290	11.158	.000
	Ability of inv decision	.934	.067	.411	13.999	.000

a Dependent Variable: Investor's Behavior.

In forward stepwise regression the algorithm adds one independent variable at a time - which explains most of the variation in the dependent variable „Y'. The next step is of one more variable then rechecking the model to see that both variables form a good model. The process continues with addition of a third and more variables if it still adds up to the explanation of „Y' (Nargundkar, 2002). The steps used in conducting the regression analysis on the above sample are as follows:

Y = A + B1**X1** + B**2** X**2** + B**3** X3+ B**4**X4 ....(1)
Y = dependent variable representing the Investor's Behavior.
B_1, B**3** and B_4 are the coefficients of the regression equation
X1 = Investors optimism,
X2 = Investors effort,
X3 =Risk appetite,
X4 = Ability of investment decision,
A = Constant term.

From the above table we can analyze that the regression co-efficient (r) = 0.970 which shows that the independent factors do have a significant impact on the Investor's Behavior.

Investor's Behavior (Y) = 0.219 + 0.514 Investor's optimism + 0.114 Investor's effort+ 0.290 Risk appetite + 0.411 Ability of investment decision…….(2)

Out of 4 independent variables (Investor's optimism, Investor's effort, Risk appetite, Ability of investment decision) all the independent variables have an impact on Investor's Behavior quotient Y as shown in above equation.

Cluster Analysis

Cluster Analysis is a multi-variant procedure (Nargundkar, 2002) is a group of similar objects. Cluster analysis is an exploratory data analysis tool for solving classification problems. Its object is to sort cases (people, things, events) into groups, or clusters, so that the degree of association is strong between members of the same cluster and weak between members of different clusters. Each cluster thus describes, in terms of the data collected, the class to which its members belong; and this description may be abstracted through use from the particular to the general class or type.

Cooper and Schindler (2007) have identified five basic steps:

a) Selection of sample to be clustered.
b) Definition of the variables on which to measure the objects.
c) Computation of the similarities through correlation.
d) Selection of mutually exclusive clusters
e) Cluster comparison

Table 6 Number of Cases in Each Cluster

Cluster	1	34.000
	2	15.000
	3	33.000
	4	18.000
Valid		100.000
Missing		.000

Table 7 Final Cluster Centers

	Cluster			
	1	2	3	4
GENDER	1	2	1	1
AGE	2	2	2	2
M.S.	2	2	2	2
Occupation	3	3	3	3
Education	2	2	2	2
Income P.A.	4	3	3	3
Ability of investment decision	22	7	19	26
Investor's optimism	17	7	9	25
Investor's effort	10	8	8	13
Risk appetite	20	17	20	24
Investor's Behavior	70	37	55	87

Cluster 1: The above table explains that there exists homogeneity in considering the impact of the components mentioned above and the Investor's Behavior between samples in the age range of 30-50 years and gender of male investors whose marital status is married and qualification is up to Graduation whose occupation is Self-employed and annual income is above 3 lakhs.

Cluster 2: The above table explains that there exists homogeneity in considering the impact of the components mentioned above and the Investor's Behavior between samples in the age range of 30-50 years and gender of female investors whose marital status is married and qualification is up to Graduation whose occupation is Self-employed and annual income is in the range of 1 lakh to 3 lakhs.

Cluster 3: The above table explains that there exists homogeneity in considering the impact of the components mentioned above and the Investor's Behavior between samples in the age range of 30-50 years and gender of male investors whose marital status is married and qualification is up to Graduation whose occupation is Self-employed and annual income is in the range of 1 lakh to 3 lakhs.

Cluster 4: The above table explains that there exists homogeneity in considering the impact of the components mentioned above and the Investor's Behavior between samples in the age range of 30-50 years and gender of male investors whose marital status is married and qualification is up to Graduation whose occupation is Self-employed and annual income is in the range of 1 lakh to 3 lakhs.

Findings

- According to the data that have been collected among the recipients 76(76%) were male and the rest 24(24%) were female, from this it can be seen that investing is mostly a man's game although women are doing their investment in some way or another but they are very less doing it through financial instruments.
- People like to invest in Stock market as compared to any other markets, even if they face huge losses.
- Most of the people whose survey was done mostly were retired persons or the age group between 35-50; this suggests that youth of India is unaware about investment opportunities.
- According to the data that have been collected people give more preference to savings and safety but at the same time they want higher interest at low risk in shorter span.
- According to the data that have been collected people are having less knowledge of managing their income and assets.
- Most of the investors possess higher education like graduation and above.
- Most investors opt for two or more sources of information to make investment decisions.
- Most of the investors discuss with their family and friend before making an investment decisions.
- Percentage of income that they invest depend on their annual income, more the income more percentage of income they invest.
- The investor's decisions are based on their own initiative.
- Most of the investors are financial illiterates.
- Increase in age decrease the risk tolerance level.
- Women are attracted towards investing gold than any other investment avenue.

CONCLUSION

For Indian public money is everything. So they are more sensitive about their money. They will think hundred times before investing in any market and will expect more than that. They feel that they are having enough money, time, resources and opportunities with them for investing. Though they are having sound knowledge of financial market and economic condition of India yet they lack the edge above the others as this field is very unpredictable and vast hence they must be backed up by a financial planner.

Some of the recommendations are:

- Day trading is an addiction which can ultimately prove disastrous. Encouragement should be given to invest in equity for the long term.
- We can encourage participation from household should own PSU shares so that company will also get customer base and the margin will increase.
- We must put up some "financial literacy campaign" as many people are still unaware of stock market and in India there is youth which is untapped.
- The communication should be increased and more personalized service should be given to investors to earn trust and long run relationship.
- The company must also provide more value added services to investors.
- People give more importance to savings so as per their likings more opportunities should be provided.

Many times it may happen that people land up in mess or huge losses due to not proper information or guidance, and if they want to know where they are going? A financial planner would do a world of good to them.

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